

# STATES CAN MAKE CARE LESS TAXING

## Tax Credits Related to Child Care, Tax Year 2022

Child care and early education is critical for children's development, parents' ability to participate in the workforce, and our economy's growth. However, years of underinvestment means that high-quality child care is too expensive for many families, even while wages for child care workers are far too low. This leaves many parents and child care workers—especially women of color and their families—without the support they need to care for themselves and their families. While not a substitute for greatly expanded investments in direct child care assistance, state tax benefits related to child care can [help alleviate](#) these burdens—and promote racial and gender equity.

## State Child and Dependent Care Tax Provisions Help Families Afford Out-of-Pocket Child Care Expenses

In 2020, the [average annual cost of child care](#) for one child in the United States was \$10,174, though prices vary widely between states. The average couple with children would need to spend more than 10 percent of their household income to cover this average cost—well above the Department of Health and Human Services' recommendation that child care costs constitute no more than [7 percent of household income](#). This burden is even higher for [low-income](#) and [single-parent families](#)—disproportionately women-headed households and families of color—who spend more than a third of their income on care. Additionally, the Child Care and Development Block Grant (CCDBG)—the main federal program that provides funding to states to help families afford child care, improve the safety and quality of child care, and support the child care workforce—is so underfunded that only [16 percent of eligible children receive care](#).

While direct child care investments are needed to make child care affordable and accessible for all families, states can help families offset their child care costs by enacting **child and dependent care tax provisions**. These tax provisions lower the income taxes that families pay and, in some cases, give cash refunds to families who do not owe taxes.

Many states have based their tax provisions on the federal [Child and Dependent Care Tax Credit](#) (CDCTC). The federal credit allows families to claim a percentage (up to 35 percent) of their work-related child and dependent care expenses (up to \$6000) as a tax credit. The credit covers expenses for child or dependent care that enable the parent (or parents if filing jointly) to work or look for work. However, the federal credit is currently non-refundable, which means that many families with little to no tax liability do not benefit from the credit. Families with low incomes, including many women-headed households and families of color, are therefore largely shut out of the credit, despite the fact that the costs of child care fall hardest on them. Fortunately, states can help families meet the costs of child care more equitably by making their state credits refundable.

As of tax year 2022, twenty-nine (including the District of Columbia) have child and dependent care tax provisions, most of which are based in some way on the federal credit. Fifteen of those states offer refundable credits (listed in bold in the table below).

States seeking to enact a new child and dependent care tax provision—or improve an existing credit— should prioritize the following:

- Making the credit refundable;
- Providing higher credit amounts for families with low incomes;
- Providing high expense limits (at least up to the federal limits of \$3,000 for one child and \$6,000 for more children); and
- Adjusting yearly for inflation.

STATE TAX PROVISION <sup>1</sup>	MAXIMUM VALUE
Arkansas Child Care Credit	\$420
<b>Arkansas Early Childhood Program Credit<sup>2</sup></b>	<b>\$420</b>
California Child and Dependent Care Expenses Credit	\$1,050
<b>Colorado Child Care Expense Tax Credit<sup>3</sup></b>	<b>\$1,050</b>
<b>Colorado Low-Income Child Care Expenses Credit</b>	<b>\$1,000</b>
Delaware Child Care Credit <sup>4</sup>	\$1,050
District of Columbia Credit for Child and Dependent Care Expenses	\$672
<b>District of Columbia Keep Child Care Affordable Tax Credit</b>	<b>\$1,045 (per eligible child)</b>
Georgia Child and Dependent Care Expense Credit	\$630
<b>Hawaii Credit for Child and Dependent Care Expenses</b>	<b>\$1,200</b>
Idaho Tax Subtraction for Child and Dependent Care Expenses	\$360
<b>Iowa Child and Dependent Care Credit<sup>5</sup></b>	<b>\$1,575</b>
Kansas Credit for Child and Dependent Care	\$525
Kentucky Child and Dependent Care Credit	\$420
<b>Louisiana Child Care Credit<sup>6</sup></b>	<b>\$1,050</b>
<b>Louisiana Child Care Expense Credit<sup>7</sup></b>	<b>\$2,100</b>
<b>Maine Child Care Credit<sup>8</sup></b>	<b>\$1,050</b>
<b>Maine Adult Dependent Care Credit<sup>9</sup></b>	<b>\$525</b>
<b>Maryland Credit for Child and Dependent Care Expenses<sup>10</sup></b>	<b>\$672</b>
Maryland Child and Dependent Care Expenses Subtraction	\$345
Massachusetts Dependent Care Tax Credit / Household Dependent Tax Credit	\$480
<b>Minnesota Child and Dependent Care Credit</b>	<b>\$2,100</b>
Montana Child and Dependent Care Expense Deduction <sup>11</sup>	\$180 for 2 children or dependents, \$192 for 3 or more
<b>Nebraska Credit for Child and Dependent Care Expenses</b>	<b>\$2,100</b>
<b>New Jersey Child and Dependent Care Credit</b>	<b>\$2,100</b>
<b>New Mexico Child Day Care Credit<sup>12</sup></b>	<b>\$920 for 2 children or dependents, \$1,200 for 3 or more</b>
<b>New York Child and Dependent Care Credit</b>	<b>\$2,100</b>
Ohio Child Care and Dependent Care Credit	\$2,100
Oklahoma Child Care Tax Credit <sup>13</sup>	\$420
<b>Oregon Working Family Household and Dependent Care Credit<sup>14</sup></b>	<b>\$18,000</b>
Rhode Island Credit for Child and Dependent Care Expenses	\$525
South Carolina Credit for Child and Dependent Care	\$420
Vermont Credit for Child and Dependent Care Expenses <sup>15</sup>	\$504

**Vermont Low-Income Child and Dependent Care Credit<sup>16</sup>****\$1,050**

Virginia Deduction of Child and Dependent Care Expenses

\$345

Wisconsin Additional Child and Dependent Care Tax Credit

\$1,050

## Child Care/Early Educator Workforce Tax Credits Provide Needed Income Support for Underpaid Child Care Workers

Child care workers—**92 percent** of whom are women, disproportionately immigrant women and women of color—earn poverty wages for doing essential work that keeps our economy running. In May 2020, a child care worker in a center only earned an average of **\$12.24 per hour** (\$25,460 annually). These low wages mean that many child care workers rely on **public assistance programs** like SNAP to make ends meet and suffer from high rates of **economic stress**, including concern about putting food on the table. Low wages also contribute to understaffing in the child care industry—a **net 79,600 child care jobs** have been lost since February 2020—which exacerbates the ongoing child care crisis.

Robust direct investments in child care are needed to ensure that child workers receive the increased wages, benefits, and improved labor protections they need and deserve. However, tax benefits that provide income support to child care workers can play a complementary role. There is currently no federal tax provision targeted specifically to child care workers, but a couple of states offer a child care/early educator workforce tax credit.

Colorado’s **Early Childhood Educator Income Tax Credit** and Louisiana’s **Credit for Child Care Directors and Staff** are refundable tax credits for child care workers who hold applicable child care credentials and have been working in an eligible program for at least six months. Colorado’s credit provides up to \$1,500 and Louisiana’s up to \$3,787, with the amounts for both based on the child care worker’s level of experience and credentials (see chart below). (**Nebraska** previously offered a child care workforce tax credit of up to \$1,500, but it expired in 2022.)

### CHILD CARE/EARLY EDUCATOR WORK FORCE TAX CREDIT AMOUNTS BY EXPERIENCE LEVEL

**Colorado’s Early Childhood Educator Income Tax Credit<sup>17</sup>**

Early Childhood Professional 1	\$700
Early Childhood Professional 2	\$1,000
Early Childhood Professional 3	\$1,500

**Louisiana’s Credit for Child Care Directors and Staff<sup>18</sup>**

Child Care Teacher I	\$1,894 <sup>19</sup>
Child Care Teacher II	\$2,525
Child Care Teacher III	\$3,157
Child Care Teacher IV	\$3,787

States seeking to create their own child care workforce tax credit should prioritize the following in **designing and implementing** their credit:

- Making the credit refundable;
- Ensuring that as many types of child care workers as possible are covered by the credit, including family child and care home-based providers;
- Ensuring that any experience and credential requirements do not exclude child care workers with low incomes;
- Ensuring that claiming the credit is not burdensome; and
- Building in awareness campaigns to educate the workforce about the availability and benefit of the credit.

## Seize the Opportunity to Make Care Less Taxing

The severe underinvestment in the child care industry has made it difficult for families to afford child care and for child care workers to make ends meet across the country—but states can leverage the tax code to help.

More information about state child and dependent care tax provisions are available in NWLC's report, [Making Care Less Taxing](#), and more information about state policies to support child care and early education are available in NWLC's report, [State Child Care and Early Education Updates 2022: Progress on a Long Path](#). For advocates and policymakers interested in introducing or improving a child and dependent care tax provision or a child care/early educator workforce credit in your state, contact Kat Menefee at [kmenefee@nwlc.org](mailto:kmenefee@nwlc.org).

- 1** Refundable or partially refundable credits are listed in bold. Credit/deduction names are based on the names on the state tax forms, not statutory provisions.
- 2** In order for a family to claim the refundable portion of this credit, the care expenses must be incurred for children age 5 and under in an approved early childhood program.
- 3** Only child care expenses may be claimed for this credit.
- 4** Child and dependent care expenses may be claimed for this tax credit.
- 5** Eligible families may claim the higher of the child and dependent care tax provision or the state's Early Childhood Development Tax Credit, which is worth up to \$250 per eligible child, but not both.
- 6** Eligible families can claim both of the Louisiana credits.
- 7** Only care expenses for children aged 5 and under enrolled in child care programs rated two stars or higher on Louisiana's Quality Start rating system may be claimed for this credit.
- 8** In order for a family to claim the maximum value of this credit, the expenses must be incurred at nationally accredited child care sites approved by the Maine Department of Health and Human Services. Up to \$500 of the Child Care Credit is refundable.
- 9** Up to \$500 of this credit may be refundable.
- 10** The credit is refundable for families with an Adjusted Gross Income of \$52,100 or less for individuals or \$78,150\* or less for married couples filing jointly. Eligible families may claim both Maryland child and dependent care tax provisions.
- 11** Only care expenses for children under age 15 may be claimed for this credit.
- 12** Only care expenses for children under age 15 may be claimed for this credit.
- 13** Eligible families may claim the higher of the child and dependent care tax provision or a credit worth 5% of the federal child tax credit, but not both.
- 14** Only care expenses for children under age 13 or disabled spouses or dependents of any age may be claimed for this credit.
- 15** Eligible families may claim either the Vermont Tax Credit for Child and Dependent Care Expenses or the Vermont Low-Income Child and Dependent Care Tax Credit, but not both.
- 16** Only expenses incurred in child care facilities that are either nationally accredited or rated three or more stars on Vermont's STARS quality rating system may be claimed for this credit.
- 17** A child care worker's Early Childhood Professional level is determined by their score through the Early Childhood Professional Credential. The Early Childhood Professional Credential is a voluntary system for child care workers that tracks their training and education levels. A child care worker's score is determined by their level of formal education, the child care experience, their participation in trainings, and their performance during observations.
- 18** A child care worker's Child Care Teacher level is determined by their educational level attained through the Louisiana Pathways Child Care Career Development System. The Pathways Child Care Career Development System is voluntary system for child care workers that tracks their training and education levels.
- 19** The amounts for the Louisiana credit are adjusted annually for inflation. These numbers for the 2022 Tax Year.